

Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

“The U.S.-EU Regulatory Dialogue and its Future”
May 13, 2004

Good morning. Two years ago, this Committee convened a hearing to address “The European Union’s Financial Services Action Plan and its Implications for America’s Financial Services Industry.” Today’s hearing explores how the Dialogue has worked over the last two years and how participants expect it to evolve in the context of a united Europe consisting of 25 countries with a wide range of economic strength and development.

We welcome back witnesses from the SEC, the Treasury, and the Federal Reserve to discuss this issue. I look forward to seeing whether their expectations two years ago were met and what they think the future might hold. We welcome for the first time on this topic our PCAOB witness, who will provide a perspective on how innovative and productive a variety informal processes can be in resolving difficult transatlantic regulatory issues.

I am particularly pleased to welcome for the first time before this Committee the European Commission. It is not often that a foreign authority testifies before Congress. I understand that Director General Alexander Schaub will use the opportunity of this hearing to present significant new ideas on how the U.S.-EU regulatory relationship might evolve. We look forward to this testimony.

Two years after our first hearing on this issue, many of the same issues remain on the forefront of the transatlantic regulatory debate: the supervision of financial conglomerates, international accounting standards, convergence in accounting standards, transparency in prospectuses, and making consolidated supervision function on both sides of the Atlantic.

And yet, much has changed. We convene today shortly after the historic accession of 10 Eastern European countries into the European Union. This fulfills the dreams of many (including myself) that Europe after World War II could one day be united, whole, and free. Much of the European financial services agenda, especially after the fall of the Berlin Wall, has aimed to create a financial services marketplace to serve a European market nearly equivalent in size to ours.

The financial markets have also changed. The end of the Cold War and a revolution in risk management and telecommunications together have created opportunities and enthusiasm for global capital markets to integrate across borders. I believe that transatlantic trade in both goods and services benefits consumers and businesses on both sides of the Atlantic and helps create a vibrant job market here in the United States. It generates competition in both markets and forces firms to be more efficient, innovative, and effective in serving customers.

These trends place pressure on financial regulators to find better ways of working together. Following our hearing two years ago, the “U.S.-EU Financial Markets Dialogue” was created. It fosters regulatory discussion on emerging transatlantic issues and attempts to avoid conflicts. I understand that the dialogue has been extremely successful. In fact, it has been so successful that some have suggested it needs to grow and become more formalized. Others have suggested that

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the dialogue should seek to accelerate financial market integration and foster convergence of regulatory standards across the Atlantic. Our witnesses today will provide insight into the innovative tools used today to increase transatlantic mutual understanding and cooperation.

This is a very important initiative. Financial firms operating in multiple states must comply with multiple, sometimes conflicting, regulatory requirements. These requirements reflect government efforts to protect consumers and to foster financial system stability, safety, and soundness. The Financial Services Committee seeks to strengthen the U.S. regulatory framework, permitting it to adapt to a world where significant changes in capital market behavior and the world around us require new approaches to accounting, auditor oversight, consolidated supervision, and protection from abuse from terrorists and money launderers.

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This Committee also seeks to reduce regulatory burdens. Last fall, we enacted major banking regulation relief legislation and we are right now working on an insurance regulatory reform package. I am committed to reducing inefficient regulatory burdens for all financial institutions doing business in the United States subject, of course, to security and financial stability considerations. Relieving regulatory burdens in the United States, however, is only part of the picture. America's largest financial institutions are major players in the European capital markets. Major European firms are a significant and growing presence in all three sectors of the United States financial services market: banking, securities, and insurance.

The choices one country makes for how best to protect its investors and depositors may not always coincide with the choices other countries make. Different policies can be driven by differences in market structure. Such differences are legitimate and do not easily lend themselves

to calls for convergence. I believe that convergence and equivalence in regulatory structures can only make sense where convergence is already underway in the markets and where differences in regulation can have a detrimental impact. To endorse convergence as a goal without considering the needs and views of the voters that brought us to Washington to represent their interests would be irresponsible.

I hope this hearing will help us understand which differences in regulatory standards are needed to address different market structures and which differences are inefficient. I am skeptical that transatlantic regulatory convergence will occur quickly in all areas. While the financial markets continue integrating, national regulators will need authority (and a legislative mandate) to protect consumers and markets at home. I note that it took Europe almost 40 years to achieve a legal framework based on “mutual recognition” and this framework is still under construction. Some might question whether the “mutual recognition” concept can operate outside the EU.

In addition, the EU’s new framework has not yet been fully tested. The Financial Services Action Plan will not be implemented until next year and concerns have been expressed that full implementation may impose unnecessary costs or create unnecessary conflicts. Questions also exist concerning how the new regulatory structures in Europe will interface with the rest of the world, putting pressure on the execution of consolidated home-country supervision. In the United States, we have our own regulatory burdens to consider and address. The specter of listed firms needing to provide financial statements using two different accounting standards and the prospect of having two different regulatory capital frameworks for financial institutions are two examples of areas where regulators on both sides of the Atlantic face common challenges.

I believe that practical working relationships such as those created through the US-EU Dialogue and other transatlantic discussion for a can help generate a process for differences to be discussed and understood better. We will not all agree today on the right solutions for any of the issues before this transatlantic regulatory dialogue. In the future, we cannot expect disagreements will disappear regarding how best to regulate the very fluid and innovative financial sector. But I firmly believe that increased dialogue can lower the temperature of our disagreements and can lower the odds that serious misunderstandings can develop. The capital markets will not stop integrating and it is our responsibility as policymakers to ensure that the rules generated to protect consumers and enhance market discipline do not generate excessive and inefficient compliance costs.

